

Message Text

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44

ACTION EUR-25

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

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E.O. 11652: N/A

TAGS: EFIN, PO

SUBJ: POSSIBLE INTERNATIONAL STAND-BY LOANS

1. RESEARCHERS FOR FIRST NATIONAL CITY BANK AND MORGAN GUARANTY, WHO RECENTLY SOUGHT OUR APPRAISAL OF THE POLITICAL-ECONOMIC SITUATION IN PORTUGAL, HAVE INFORMED US THAT THE GOP IS EAGER TO SIGN A STAND-BY CREDIT WITH U.S. AND EUROPEAN BANKS. DISTURBED BY THE FIRST PROJECTED BALANCE OF PAYMENTS DEFICIT IN MANY YEARS, THE GOP WANTS TO PROTECT ITS STRONG RESERVE POSITION AND AT THE SAME TIME END THE ISOLATION FROM INTERNATIONAL CAPITAL MARKETS WHICH WAS SELF-IMPOSED BY EARLIER REGIMES.

2. THE GOP IS SEEKING DOLS 300 MILLION IN STAND-BY LOANS: DOLS 150 MILLION FROM "WESTERN HEMISPHERE BANKS" AND DOLS 150 MILLION FROM EUROPE. WITH RESPECT TO THE WESTERN HEMISPHERE HALF, FNCB AND MORGAN WOULD EACH TAKE A TRANCHE OF DOLS 25 MILLION AND SELL THE REMAINDER, ON A "BEST EFFORTS" BASIS, TO 10 OR 15 OTHER U.S. BANKS. (AS

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FOR THE EUROPEAN HALF, THE U.S. BANK RESEARCHERS DID

NOT BELIEVE THAT ANY AGREEMENT HAD BEEN REACHED.)

3. THE RESEARCHERS ARE CONVINCED THAT THE TIME IS OPPORTUNE TO MAKE THE STANDBY CREDIT AND THAT WAITING IS UNLIKELY TO PRODUCE ANY CONCLUSIVE EVIDENCE ABOUT PORTUGAL'S ABILITY TO REPAY OVER THE NEXT FIVE YEARS, WHICH IS THE PROPOSED PAY-BACK PERIOD FOR THE LOAN. THEY EXPECT, HOWEVER, THAT THEIR RECOMMENDATION TO PROCEED WILL BE MET WITH CONSIDERABLE SCEPTICISM BY THE U.S. BANKING COMMUNITY, WHERE THEY SAY A GENERAL IMPRESSION OF PORTUGUESE INSTABILITY PREVAILS.

4. THE RESEARCHERS BELIEVE THAT IF THE LOAN IS APPROVED THE GOP WILL NOT LET IT SIT IDLE BUT WILL SOON DRAW IT DOWN.

5. COMMENT: EARLY APPROVAL OF AND FULL SUBSCRIPTION TO THE FNCB-CHASE LOAN WOULD BE A SHOT-IN-THE-ARM FOR THOSE GOVERNMENT OFFICIALS WHO ARE TRYING TO INTEGRATE PROTUGAL MORE FULLY IN THE INTERNATIONAL ECONOMIC COMMUNITY. IT WOULD ALSO BE AN AFFIRMATION OF FAITH FROM ABROAD THAT THE GOVERNMENT COULD POINT TO IN ITS EFFORTS TO RESTORE ECONOMIC CONFIDENCE DOMESTICALLY.
POST

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